

## **Economy, Infrastructure and Skills Committee Funding Apprenticeships and the Apprenticeship Levy**

### **Apprenticeships Skills Policy Plan**

1. **Welsh Government Skills Policy is aimed at aligning apprenticeships to the needs of the Welsh economy** so that the skills system is responsive to industry changes that enable Wales to compete globally through having workers equipped with high level technical and professional skills. The Welsh Government's strategy is to invest in training which will provide economic and social returns; investing in growth sectors and occupations to address skill shortages and gaps that hold back productivity and growth. We are already working with employers to expand and strengthen routes in STEM, the digital industries, information technology, construction and financial services.
2. Proposed Welsh Government Apprenticeships Skills Policy responds to these challenges; not only is the Welsh Government committed to deliver a **minimum of 100,000 quality all age** apprenticeships over the current Assembly term, we will prioritise our investment in:
  - **Addressing skill shortages** through developing apprenticeships in growth sectors and emerging occupations in line with priorities determined by Regional Skills Partnerships.
  - **Developing higher level skills** - focusing on apprenticeships at level 3 and above particularly in science, technology, engineering and professional routes, where returns tend to be higher.
  - **Increasing the take-up of apprenticeships amongst 16-19 year olds**, reflecting Welsh Government commitment to supporting younger apprentices
  - Delivering a larger number of apprenticeships through the **medium of Welsh and/or bilingually**.
3. To deliver these priorities we will be **increasing our investment in apprenticeships from £96m to £111m for 2017-18**. Of the additional funding, £15m will be invested annually; there will be a further £0.5m of revenue funding in 2017-18 for police and crime commissioners to ensure that they are not disadvantaged as a result of the Apprenticeship Levy. Apprenticeships are required across a broad range of sectors. They are becoming increasingly relevant to the public sector in maintaining and improving public services such as: education, fire services, waste management, social services and healthcare. We will work with public sector organisations to create a range of public service workforce apprenticeships which will help with modernisation, efficiencies and improvements required across the sector.
4. **The £111m includes European Funding of £16m** which has been secured to support additional apprenticeship investment in Wales.

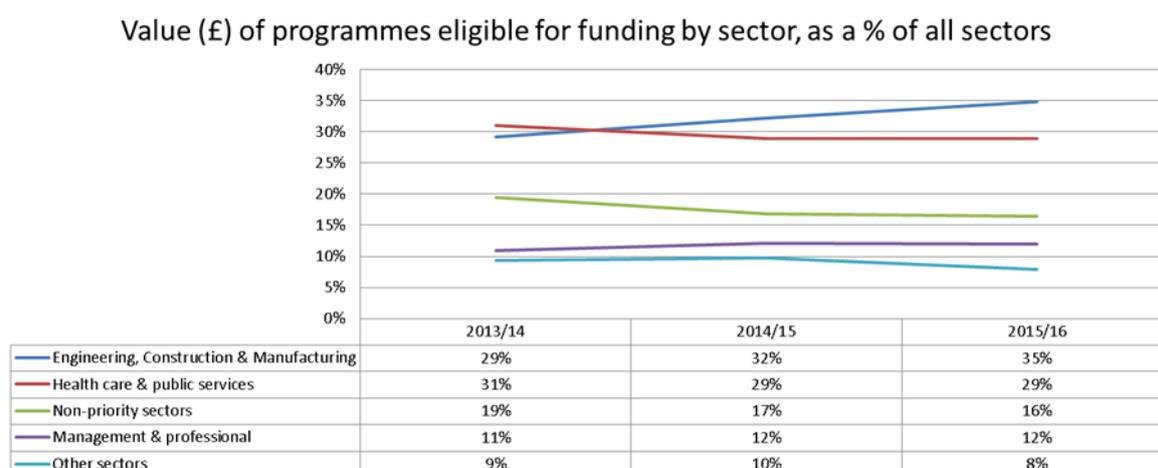
## Why are we changing the pattern of investment?

- UK productivity lags significantly behind that of our main international competitors and Wales was below the UK productivity average in 2015 (GVA per hour worked). The Office for National Statistics estimates that Germany, France and the USA were each about a third more productive than the UK in 2015 (current price GDP per hour worked). The productivity gap is partially explained by the UK's lower emphasis on technical and higher level vocational education that combines on and off the job training. Projections indicate that over the next decade, there will be around 5 million new and replacement job openings for high skilled jobs (including management and professional roles) and 3.6 million openings for medium-skilled jobs (including skilled trades and associate professional/technical roles)<sup>1</sup>.
- Currently the majority of apprentice starters are at entry level following Foundation Apprenticeships at level 2 (43 per cent); 35 per cent on Apprenticeships (level 3); and 21 per cent on Higher Apprenticeships (levels 4 and above)<sup>2</sup>. Of these apprentices the majority are in sectors and occupations that are in non-priority sectors/occupations, for example, in business administration, retail and customer service.

## Investing in High Value Apprenticeships

- Wales is rebalancing investment to align to the needs of Welsh businesses. The Welsh Government is shifting apprenticeship training from low cost sectors, where the skills content is relatively low and where there is limited evidence of skill shortages, into high value sectors. **Figure 1** illustrates how funding values have increased in engineering, construction and manufacturing over a three year period. More detailed information by sector can be found under **Annex A**.

**Figure 1**



<sup>1</sup> Wilson, R., Beaven, R., May-Gillings, M., Hay, G., and Stevens, J. (2014). Working Futures 2012- 2022. Evidence Report 83, UK Commission for Employment and Skills, Wath-upon-Deerne.

<sup>2</sup> StatsWales – 2014/15

8. To support growth in high value technical apprenticeships, we are reducing entry level apprenticeships for over 20 year olds in non-priority occupations, such as those in retail, business administration and customer service. It is not in the long-term interest of the Welsh economy to deliver entry level apprenticeships that contribute lower returns on investment in skills. They have limited benefits in the labour market; unemployment rates for those with level 2 qualifications are relatively high and wage returns for level 2 qualifications are relatively low. Employers and apprentices will need to commit to programmes where the aim is achieving a full Apprenticeship rather than Foundation Apprenticeship. The programmes will be increasingly integrated so that level 2 is achieved en route to apprenticeship completion at level 3.
9. Welsh Government investment will increasingly be lead by intelligence from the Regional Skills Partnerships. Welsh Government will use this intelligence to direct contracted apprenticeship providers to deliver in priority areas. We are already investing significantly in expanding Higher Apprenticeships; working with the outcome of the Diamond Review we will extend Higher Apprenticeships investment into STEM subjects and technical occupations.
10. To support growth we have prioritised the review of existing higher apprenticeship frameworks to ensure they are relevant and attractive to employers, for example, we have added Higher National qualifications to frameworks in the engineering sector which employers value. Ensuring that these apprenticeships include qualifications that employers both recognise and value will encourage take-up.
11. Providers and universities will need to increasingly work together to deliver flexible courses; different sectors, employers and occupations may require different study modes, for example, online or virtual learning; block release; day release; blended learning (combining classroom and digital methods); and learner cohorts that include apprentices as well as other student types.
12. The Wales Employment and Skills Board will expand its remit to monitor actions that arise from the implementation of the Apprenticeship Action plan. It will also advise on apprenticeship framework developments with the aim of delivering a maximum of 30 high performing apprenticeship frameworks to drive forward the Welsh economy. Regional Skills Partnerships will feed into this process helping us provide direct investment to priority sectors and stimulate local and regional growth.

### **Apprenticeship Levy**

13. **The UK Apprenticeship Levy is a UK Government employment tax** that is due to come into force from 6 April 2017. All employers (Public and Private) with a pay bill of more than 3 million each year will pay the levy. The levy rate is 0.5% of the employers' pay bill based on total employee earnings excluding payments, such as benefits in kind. Employers will have a levy allowance of £15,000 per year to offset against the levy which is paid to HM Revenue and Customs through PAYE process.

14. Wales receives a Barnett consequential of apprenticeship expenditure in England funded by the Apprenticeship Levy, alongside Northern Ireland and Scotland. For 2017/18 and 2018/19 this does not represent a population share of the forecast levy and in recognition of this the Treasury has provided a small amount of additional funding in these years. However, even with that adjustment, this additional funding has been largely offset by negative Barnett consequentials arising from the cessation of spending on apprenticeship programmes elsewhere in the relevant Whitehall departments. **In aggregate, when this is combined with the additional financial burden the levy will place on public sector employers, there will be no noticeable additional funding available to Wales as a result of the levy.**
15. Wales, along with Scotland and Northern Ireland, were not consulted on the introduction of the levy, its scope and the rate.
16. In Wales we will continue to invest in apprenticeships at higher levels in technical areas and priority sectors, so that levy paying employers have access to the very best training. Regional Skills Partnerships will consult with levy paying employers to determine skills demands arising from the levy and ensure they are fully represented as part of the skills assessments they produce annually. Their plans will influence where we invest.
17. We will be supporting apprenticeship investment in public sector training, as cited earlier in this paper. The levy will disproportionately impact on the Welsh public sector; the Welsh Government estimates that Welsh public sector employers will have to pay the UK Treasury £30m per annum.

## **Communications and Support**

18. To formalise the engagement processes with employers we are establishing a team of advisors who are able to support employers in determining the impact of the levy and on how their apprenticeship needs could be met – where they fall in-line with our priority sectors. This team will assess how current apprenticeships meet employer needs and how employers can maximise funding from the Welsh Government. Where there is evidence that apprenticeship content needs reviewing, we will work with partners to do just that.
19. We will be publishing a factual guide on opportunities for Welsh levy payers, which sets out our policy approach in Wales. The draft guide was shared with the CBI who are supportive of our proposed messaging on the levy.
20. Contracted apprenticeship providers have nominated an apprenticeship levy co-ordinator who will receive information from the Apprenticeship Unit and dispatch appropriate staff to work with employers on the apprenticeship recruitment needs. We are currently holding meetings between apprenticeship levy co-ordinators and the Apprenticeship Unit.
21. There has been significant engagement with employers and representative bodies, such as the CBI. To date we have received in excess of 200 levy

enquires and officials are working closely with employers and sector bodies to ensure that they understand our approach to apprenticeships in Wales.

22. For those levy paying employers who operate between nations, the Welsh Government is working with the UK Government and the other devolved administrations to agree a common position. We will be putting in place new processes that recognise their needs and provide clarity.
23. In England levy paying employers will need to select training providers themselves and agree a price for the training. In Wales we will directly fund providers who work with employers to diagnose their needs and agree a training package to meet those needs.

### **Meeting the needs of the Foundation Economy**

24. The drive to develop and deliver apprenticeships at higher levels, in technical areas and priority sectors will mean a move away from lower level apprenticeships. We recognise that employers will nonetheless have workforce development needs for flexible, short-term programmes in our non-priority areas, such as retail, business administration and customer service.
25. To address their needs, we are looking at how we can address skills gaps and the training needs of existing employees where a full apprenticeship might not be appropriate. Such training would need to meet industry standards and both provide value to employees and employers alike. Once initial options and flexibility are drawn up, we expect to consult with employers and other interested parties.

## Annex A

This annex provides background Information on investment in apprenticeships, and the number of apprenticeship programmes in learning for the 3 most recent years. Note that there is not a direct read across between the two sets of data, investment figures are provided on a contract year basis whilst the programme numbers are those in learning at any point in the academic year.

### Investment by sector and level – Apprenticeship Programmes eligible<sup>3</sup> for funding by sector, 2015/16 academic year (Provisional Data)

Sector	Foundation	Apprenticeship	Higher Apprenticeship
Agriculture	£ 833,047	£ 595,376	£ 356,168
Business administration	£ 2,957,649	£ 3,132,297	£ 1,067,998
Construction	£ 7,516,960	£ 8,211,494	£ 78,190
Engineering	£ 4,613,189	£ 8,299,753	£ 243,805
Hair & beauty	£ 2,350,482	£ 1,089,854	£ 5,541
Hospitality	£ 2,182,804	£ 1,147,248	£ 73,366
Leisure, sport & travel	£ 577,825	£ 658,787	£ -
Management & professional	£ 931,608	£ 1,540,929	£ 7,877,233
Manufacturing	£ 1,053,787	£ 221,567	£ 32,200
Media & design	£ -	£ 161,414	£ 2,802
Retailing & customer service	£ 2,650,773	£ 1,085,096	£ -
Transportation	£ 179,721	£ 64,202	£ -
Health & social care (Adult / elderly care)	£ 5,789,970	£ 4,448,990	£ 37,213
Children's care, learning and development	£ 735,300	£ 2,264,592	£ 4,451
All other health & public service	£ 268,322	£ 1,361,490	£ 10,204,152

Source: LLWR – Welsh Government

<sup>3</sup> This shows the fundable value of apprenticeship delivery that may be funded. However, where a contractor delivers in excess of its contract value, funding would be capped at the contract value. Source: LLWR – Welsh Government

**Investment by sector and level – Apprenticeship Programmes eligible<sup>4</sup> for funding by sector, 2014/15 academic year**

Sector	Foundation	Apprenticeship	Higher Apprenticeship
Leisure, sport & travel	£ 732,647	£ 985,957	£ -
Hair & beauty	£ 2,820,606	£ 1,454,154	£ -
Construction	£ 8,491,959	£ 8,301,930	£ 828
Transportation	£ 236,148	£ 58,444	£ -
Engineering	£ 5,935,539	£ 8,746,061	£ 226,004
Business administration	£ 3,928,193	£ 3,763,981	£ 576,372
Media & design	£ 1,874	£ 238,154	£ -
Retailing & customer service	£ 3,486,750	£ 1,500,528	£ -
Manufacturing	£ 1,633,494	£ 160,708	£ 8,768
Agriculture	£ 1,955,240	£ 914,560	£ 105,915
Hospitality	£ 3,246,428	£ 1,633,848	£ 71,185
Management & professional	£ 2,139,263	£ 3,814,712	£ 6,681,110
Health & social care (Adult / elderly care)	£ 9,459,717	£ 7,224,234	£ 12,174
Children's care, learning and development	£ 1,044,385	£ 3,329,951	£ 42,433
All other health & public service	£ 298,017	£ 1,244,202	£ 7,367,656

Source: LLWR – Welsh Government

<sup>4</sup> This shows the fundable value of apprenticeship delivery that may be funded. However, where a contractor delivers in excess of its contract value, funding would be capped at the contract value.

**Investment by sector and level – Apprenticeship Programmes eligible<sup>5</sup> for funding by sector, 2013/14 academic year**

Sector	Foundation	Apprenticeship	Higher Apprenticeship
Agriculture	£ 1,897,527	£ 1,059,664	£ 45,843
Business administration	£ 4,932,680	£ 5,143,875	£ 329,964
Construction	£ 8,654,571	£ 6,997,313	£ -
Engineering	£ 6,113,152	£ 8,485,518	£ 164,282
Hair & beauty	£ 3,166,192	£ 1,360,456	£ -
Health care & public services	£ 242	£ 774	£ -
Hospitality	£ 3,402,970	£ 1,250,472	£ 19,431
Leisure, sport & travel	£ 869,637	£ 1,107,656	£ -
Management & professional	£ 2,897,959	£ 4,438,255	£ 4,790,216
Manufacturing	£ 1,901,569	£ 121,018	£ 570
Media & design	£ 16,245	£ 226,464	£ -
Retailing & customer service	£ 4,796,969	£ 1,906,368	£ -
Transportation	£ 458,734	£ 70,021	£ -
Health & social care (Adult / elderly care)	£ 12,167,594	£ 8,872,846	£ 23,651
Children's care, learning and development	£ 1,385,281	£ 3,234,550	£ 113,990
All other health & public service	£ 854,163	£ 1,553,266	£ 6,175,683

Source: LLWR – Welsh Government

<sup>5</sup> This shows the fundable value of apprenticeship delivery that may be funded. However, where a contractor delivers in excess of its contract value, funding would be capped at the contract value.

### Number of Apprenticeship Programmes by Sector Framework and Programme Level, 2015/16 (PROVISIONAL)

Broad Sector Grouping	Foundation Apprenticeships	Apprenticeships	Higher Apprenticeships	All
Agriculture	255	160	15	435
Construction	2,215	2,390	20	4,625
Engineering	1,410	2,305	100	3,815
Manufacturing	750	160	20	930
Transportation	90	25	0	115
Management & Professional	695	1,250	4,240	6,185
Business Administration	2,075	2,625	865	5,560
Retailing & Customer Service	2,005	945	0	2,950
Leisure, Sport & Travel	385	635	25	1,045
Hospitality	1,365	765	50	2,185
Hair & Beauty	1,365	620	15	2,000
Healthcare and Public Services	4,125	5,570	5,390	15,085
Media & Design	15	75	30	125

Source: Lifelong Learning Wales Record (LLWR)

Note: Figures have been rounded to the nearest multiple of 5. Non-zero values lower than 5 have been suppressed and are denoted by an asterisk

### Number of Apprenticeship Programmes by Sector Framework and Programme Level, 2014/15

Broad Sector Grouping	Foundation Apprenticeships	Apprenticeships	Higher Apprenticeships	All
Agriculture	320	165	15	500
Construction	2,525	2,430	*	4,955
Engineering	1,665	2,340	70	4,075
Manufacturing	985	100	5	1,095
Transportation	155	30	.	185
Management & Professional	1,150	1,720	3,180	6,050
Business Administration	2,910	3,040	510	6,455
Retailing & Customer Service	2,520	1,050	*	3,570
Leisure, Sport & Travel	445	490	10	945
Hospitality	1,670	675	30	2,375
Hair & Beauty	1,550	730	.	2,275
Healthcare and Public Services	5,860	5,755	4,115	15,730
Media & Design	15	110	5	130

Source: Lifelong Learning Wales Record (LLWR)

Note: Figures have been rounded to the nearest multiple of 5. Non-zero values lower than 5 have been suppressed and are denoted by an asterisk

### Number of Apprenticeship Programmes by Sector Framework and Programme Level, 2013/14

Broad Sector Grouping	Foundation Apprenticeships	Apprenticeships	Higher Apprenticeships	All
Agriculture	300	170	15	485
Construction	2,690	2,190	.	4,880
Engineering	1,835	2,410	60	4,305
Manufacturing	1,310	80	*	1,390
Transportation	240	30	.	270
Management & Professional	1,735	2,325	2,130	6,190
Business Administration	3,370	3,475	210	7,055
Retailing & Customer Service	3,310	1,300	.	4,610
Leisure, Sport & Travel	515	560	.	1,080
Hospitality	2,140	750	25	2,915
Hair & Beauty	1,780	755	.	2,530
Healthcare and Public Services	8,285	7,280	2,980	18,545
Media & Design	20	105	5	130

Source: Lifelong Learning Wales Record (LLWR)

Note: Figures have been rounded to the nearest multiple of 5. Non-zero values lower than 5 have been suppressed and are denoted by an asterisk